Macroeconomics 304– Course outline

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There will be 2-3 problem sets (20%), a mid-term exam (35%) and a final exam (45%). The final exam is on the whole material.

Textbook: Mankiew and Scarth. **Macroeconomics** (2nd Canadian Edition), Worth.

8-1 The International Flows of Capital and Goods

The Role of Net Exports

Net Foreign Investment and the Trade Balance

8-2 Saving and Investment in a Small Open Economy

Capital Mobility and the World Interest Rate
The Model
How Policies Influence the Trade Balance
Fiscal Policy at Home
Fiscal Policy Abroad

8-3 Exchange Rates

Nominal and Real Exchange Rates
The Nominal Exchange Rate
The Real Exchange Rate
The Real Exchange Rate and the Trade Balance
The Determinants of the Real Exchange Rate
Fiscal Policy
The Determinants of the Nominal Exchange Rate
Purchasing-Power Parity

8-4 Large Versus Small Open Economies

Appendix: The Open Economy in the Very Long Run

Foreign Debt
Fiscal Policy
Trickle-Down Economics

Chapter 11-2: IS-LM Theory of Aggregate Demand
From the IS-LM Model to the Aggregate Demand Curve
The IS-LM Model in the Short Run and the Long Run
Appendix
The Simple Algebra of the IS-LM Model and the Aggregate Demand Curve
The Effectiveness of Monetary and Fiscal Policy

Chapter 12 Aggregate Demand in the Open Economy
The Mundell Fleming Model
The Small Open Economy Under Floating Exchange Rates
Fiscal Policy
Monetary Policy
Tight Monetary Policy Combined With Loose Fiscal Policy
Trade Policy-World Interest Rate Changes
The Small Open Economy Under Fixed Exchange Rates
Fixed-Exchange-Rate System
Fiscal Policy-Monetary Policy
Trade Policy-World Interest Rate Changes

Policy in the Mundell-Fleming Model: A Summary
Interest-Rate Differentials
Country Risk and Exchange-Rate Expectations
Should Exchange Rates Be Floating or Fixed?
The Mundell-Fleming Model With a Changing Price Level
Appendix Exchange-Rate Expectations

Chapter 13 Aggregate Supply
Four Models of Aggregate Supply
The Sticky-Wage Model
The Worker-Misperception Model
Case Study The Cyclical Behaviour of the Real Wage
The Imperfect-Information Model
The Sticky-Price Model
Case Study: International Differences in the Aggregate Supply Curve
Inflation, Unemployment, and the Phillips Curve
Deriving the Phillips Curve From the Aggregate Supply Curve
Adaptive Expectations and Inflation Inertia
The Short-Run Tradeoff Between Inflation and Unemployment
Disinflation and the Sacrifice Ratio
Rational Expectations and the Possibility of Painless

Part Four
Macroeconomic Policy Debates

Chapter 14 Stabilization Policy
Should Policy Be Active or Passive?
Lags in the Implementation and Effects of Policies
Economic Forecasting
Rules vs. Discretion?
The Time Inconsistency of Discretionary Policy
Rules for Monetary Policy
Case Study: Inflation Targeting; Rule or Constrained Discretion?
Case Study: Central-Bank Independence
Rules for Fiscal Policy
Implications for Fiscal Policy
Appendix: Time Inconsistency and the Tradeoff Between Inflation and Unemployment

Chapter 15 Government Debt and Budget Deficit
The Size of the Government Debt
Case Study Canadian Deficits and Debts: Past, Present, and Future
Problems in Measurement
The Ricardian View of Government Debt
The Basic Logic of Ricardian Equivalence
Consumers and Future Taxes
Myopia
Borrowing Constraints
Future Generations
Other Perspectives on Government Debt
The Effects on Monetary Policy
Debt and the Political Process
International Dimensions
Appendix: Estimating the Benefits of Deficit and Debt Reduction

Part Five

The Microeconomics Behind Macroeconomics

Chapter 16 Consumption
16-1 The Consumption Function

Keynes's Conjectures

Secular Stagnation and the Consumption Puzzle

16-2 Irving Fisher and Intertemporal Choice
The Inter-temporal Budget Constraint
Consumer Preferences - Optimization
Constraints on Borrowing
16.3 The Life-Cycle Hypothesis
The Hypothesis and its Implications
16-4 The Permanent-Income Hypothesis The Hypothesis
Implications
Rational Expectations and Random-Walk Consumption

Chapter 17 Investment

Business Fixed Investment

The Rental Price of Capital and the Cost of Capital

The Determinants of Investment - The Stock Market and Tobin's q
17-2 Residential Investment
Stock Equilibrium and the Flow Supply
17-3 Inventory Investment
Accelerator Model of Inventories
Inventories and the Real Interest Rate

Chapter 18 Money Supply and Money Demand
Money Supply
Reserve Banking
A Model of the Money Supply
The Instruments of Monetary Policy
18-2 Money Demand
Portfolio Theories of Money Demand
Transactions Theories of Money Demand
The Baumol-Tobin Model of Cash Management
18-3 Financial Innovation and the Rise of Near Money

Chapter 19 Advances In the Theory of Economic Fluctuations
19-1 Real Business Cycle Theory
The Economics of Robinson Crusoe
The Interpretation of the Labor Market
The Importance of Technology
The Neutrality of Money
The Flexibility of Wages and Prices
19-2 New Keynesian Economics

Small Menu Costs and Aggregate-Demand Externalities
Recessions as Coordination Failure
The Staggering of Wages and Prices